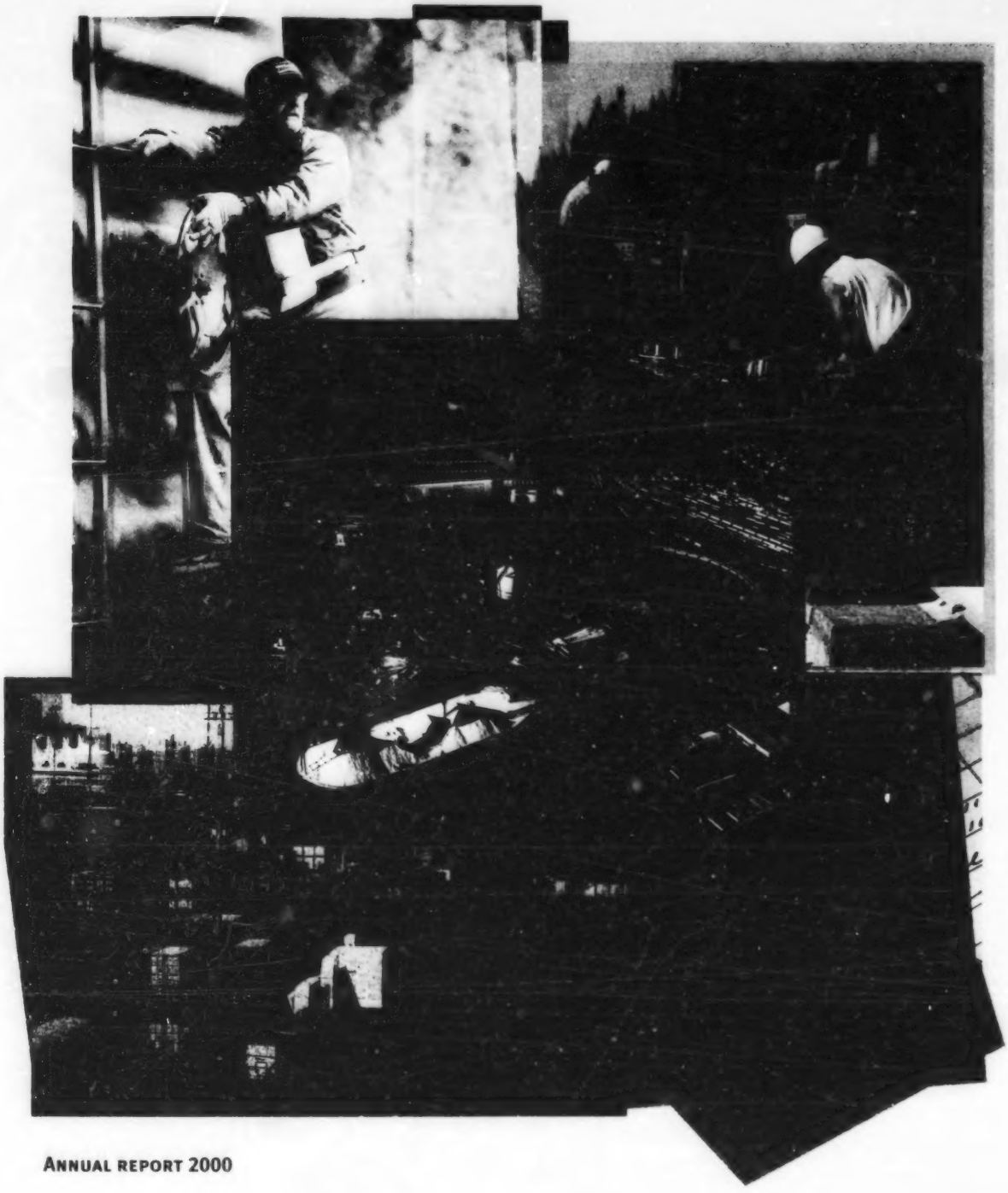

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BCR
GROUP OF COMPANIES
AUG 14 2001

READY FOR GROWTH

VISION:

To be a valuable strategic advantage for our customers in moving their goods to market.

MISSION:

To build an integrated group of profitable freight transportation service providers.

VALUES:

A safe and healthy work environment

A customer-focused, market-driven approach to business

A creative, resourceful and entrepreneurial spirit

Continuous improvement and innovation

Operate profitably and achieve business targets

Treat everyone in an honest, fair and respectful manner

Reward and recognize achievements of individuals and teams

BCR GROUP OF COMPANIES

BCRAIL

BCR MARINE

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BCR Group

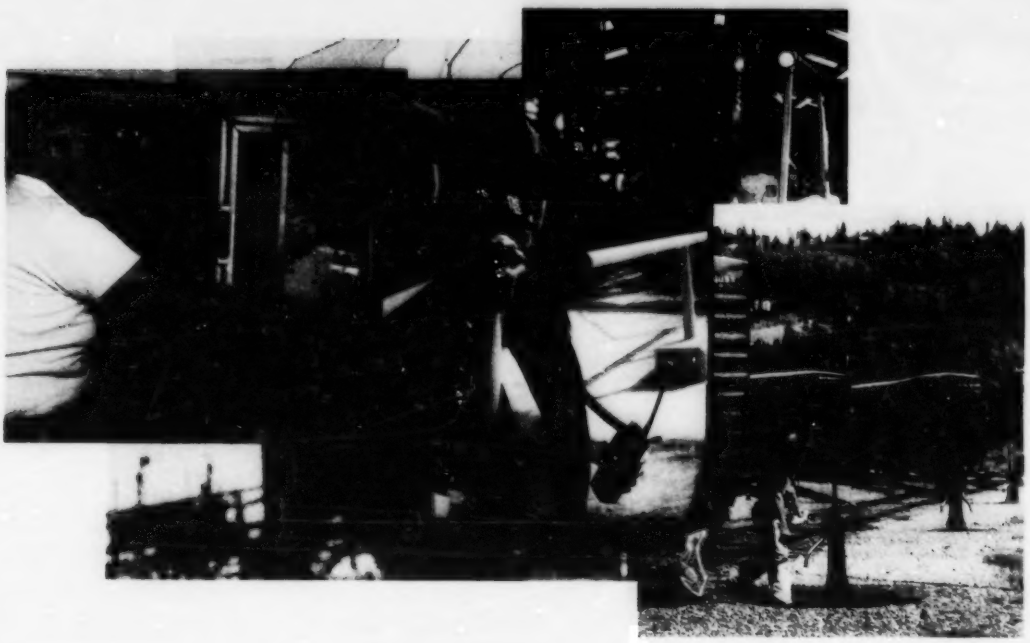
The BCR Group of Companies is a unique, fully commercial Crown Corporation with all of its businesses operating in full competition with the private sector in a deregulated environment. The Group consists of a portfolio of companies, united by a mandate to provide customers with integrated services in commercially competitive transportation and related service in British Columbia. The Group is comprised of a holding company, British Columbia Railway Company; two operating businesses, BC Rail and BCR Marine; and a joint venture investment company, BCR Ventures Inc.

BC Rail

BC Rail, Canada's third largest railway in terms of revenue, operates exclusively in British Columbia and has inter-line connections to all rail-served points in North America. The BC Rail line consists of 2,315 kilometres of mainline and 740 kilometres of industrial, yard and track sidings throughout the province. BC Rail is driven by a commitment to customer service and existing methods of service are enhanced by ongoing improvements in areas such as Internet technology and the constant desire to improve productivity in all segments of the transportation business. The Company plays an important role in the economic life of British Columbia as almost all of the railroad's customers sell their commodities throughout the world. The majority of tonnage originated by BC Rail is transported beyond the borders of the province. Some 80% of BC Rail's total revenue is generated from the transport of such goods as forest, energy and agricultural products. The remainder of the business unit's revenue is made from car hire, barging, passenger services and intermodal operations.

BCR Marine

BCR Marine, one of the leading players in the marine sector, is comprised of Canadian Stevedoring, Casco Terminals and Vancouver Wharves. Canadian Stevedoring provides stevedoring services at 22 locations along British Columbia's coast and operates the Fairview Terminal in Prince Rupert. Casco Terminals operates the container terminal on the south shore of Vancouver Harbour and handles containers, pulp, packaged lumber and general cargo. Vancouver Wharves, located in North Vancouver, is one of the largest deep-sea loading terminals in North America. It handles bulk commodities such as pulp, canola oil, sulphur, fertilizers, mineral concentrates and agricultural products for shipment to other points in North American and overseas markets. BCR Marine is a growing force in the West Coast gateway business.



Executive Summary

The BCR Group adapted to significant marketplace changes during the year 2000 by focusing ever more sharply on its core business: to provide competitive industrial transportation services to a wide range of customers.

Despite unexpected and severe downturns in the coal and forestry sectors, the Company posted net income, prior to special charges, of $6.3 million. The BC Rail business unit suffered severe revenue reductions due to unforeseen customer difficulties in the forestry and coal sectors. At BCR Marine, earlier strategic investments to diversify produced good growth in 2000. BCR Properties sold its non-transportation related real estate assets with the proceeds re-employed in the core transportation business and to reduce debt.

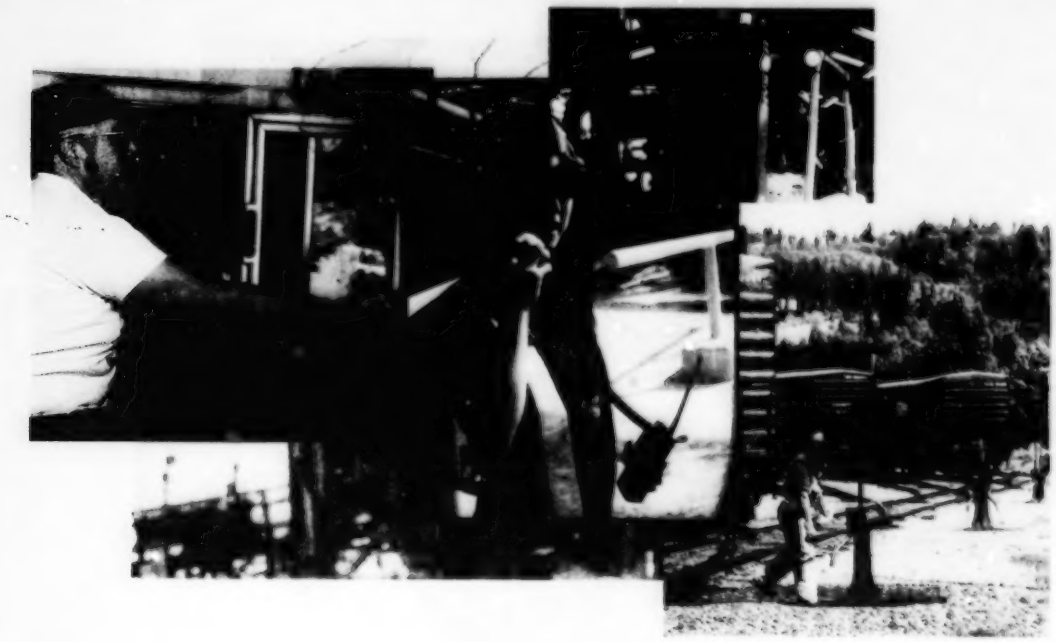
$,000	2000	1999
Total consolidated revenue	$495,721	$478,053
Total consolidated EBITDA*	$103,285	$135,730
Income before special charges	$6,279	$34,524
Environmental special charge	$13,000	
Asset write-down special charge		$616,583
Net income (loss) after special charges	($6,721)	($582,059)

* Earnings before interest, taxes, depreciation and amortization

BCR Ventures successfully concluded investments to support developments in the mining sector that have potential to create new traffic for BC Rail in the Peace River district.

Employees are vital to the performance of the BCR Group. We improved relations with our employees during the year, including negotiation of a new labour contract with workers at BC Rail.

These and other accomplishments strengthened the Company's abilities to contribute to the economic success of the Province and to give our customers the strategic advantage of an economic, viable, competitive choice in moving their products to market.



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Letter from the Chair

BCR made important progress during the year 2000 in reshaping its businesses to be more competitive and efficient for the long term. But poor marketplace conditions caused serious difficulties for our customers and reduced the Company's net income, prior to special charges, to $6.3 million. After assuming a special environmental charge of $13 million, the Company posted a net consolidated loss for the year of $6.7 million.

While the Company net income was less than anticipated, it was not inconsistent with the severe and unforeseen declines in the coal and forestry sectors and sharp increases in costs such as fuel.

A bright spot was good performance at BCR Marine where increased revenues helped to soften the overall financial results. Revenue growth of 20 per-cent for BCR Marine helped to offset a four per-cent decline in Rail revenues associated with reduced northeast coal shipments and the downturn in the forestry sector.

For BCR Marine, the challenge was meeting customers' growing demand while at the same time successfully implementing major new infrastructure improvements. To strengthen the business for the future, BCR Marine's Vancouver Wharves implemented several new initiatives. They successfully put into operation a new agri-products terminal that provides for "soft handling" of high value specialty agricultural products. They also ran the new bulk sulphur handling system at designed operating rates, providing sulphur shippers with a world class facility that delivers fast rail turnaround and rapid ship loading. BCR Marine also undertook consolidation of its administrative operations at one location in North Vancouver. Additionally, significant progress was made in negotiations with the Vancouver Port Authority toward a new long-term lease at Casco Terminals to set the stage for further growth in the container segment of the business.

In another strategic initiative to focus more sharply on our core industrial transportation business, BCR Properties sold 19 income properties not directly linked to transportation. The $106 million generated from the sales was used to reduce debt and support growth in the transportation enterprises. Properties will continue to support our core transportation business by focusing exclusively on transportation-related real estate assets.

The Company also continued to explore ways of partnering with customers to enhance economic development that benefits both parties. After participating successfully in the initial phases of the development of a coal mining property to be operated by Pine Valley Coal at Willow Creek on the BC Rail mainline near Chetwynd, early in 2001 BCR Ventures negotiated recovery of its original investment including a return on capital. There is potential for more than a decade of coal shipments, as well as an economic benefit for the community. In another partnership, BC Rail worked

with Canfor Corporation to develop a new handling facility for wood chips at Prince George, improving the competitive position of one of our most important customers.

We will continue to explore similar activities in the future to support our customers and therefore the foundations of our businesses.

While there were many successes within the BCR Group, the last year of the millennium was characterized by severe business downturns in coal and forestry with the adverse effects felt most directly by BC Rail, the Company's largest operating unit.

In the northeast of the province, where coal mine closures were anticipated over the coming years, BC Rail's biggest coal customer shut down prematurely in August. The reduced revenues from closure of the Quintette coal mine at Tumbler Ridge more than offset increases in revenues from sulphur, grain and other bulk products.

In the forest sector, mill closures and low prices for solid wood products undermined BC Rail's largest single base of customers.

Market downturns such as those in coal and forest products are particularly challenging since heavy transportation infrastructure demands long-term capital investments. There is limited flexibility and management's options are restricted by the fact that the non-economic infrastructure cannot be quickly and easily turned to other profitable purposes. However, some of the coal-carrying capacity was absorbed by the delivery of gravel for B.C. Transportation and Highways projects in the northeast region.

The operating environment was worsened further by sharp increases in the cost of fuel. BC Rail introduced a fuel-cost recovery program in October to offset some of the new cost burden.

As part of our commitment to improve relations with the workforce, management briefed Rail employees on the business situation during the year. We worked ever more closely with employees to develop solutions to reduce costs further and move forward with programs to improve efficiencies. The dialogue with employees contributed to a better mutual understanding of the business challenges. As well, the year saw the successful negotiation of a new two-year labour contract for the BC Rail workforce prior to the expiry of the previous agreement. The new agreement runs to December 31, 2002.

In addition to the marketplace changes that affected its businesses, we were saddened late in the year to accept the resignation of Paul McElligott from the position of President and Chief Executive Officer. In his 11 years at the BCR Group, Paul had shaped the Corporation as a commercially competitive organization that provides integrated transportation services to British Columbia businesses without relying on subsidies from the shareholder, the Province of British Columbia.

The year 2000 saw other changes in the Company's executive management team. Rail's Vice-President of Business Development, Wayne Banks, retired in June after 40 years of service. Doug Wilkes and Robert Pirooz joined the Company as Chief Financial Officer and General Counsel respectively.

While the marketplace changes during the year were substantial and often beyond direct control, the strength of the business franchise, coupled with the support of the employees, helped to keep the Company on track.

The BCR Group made significant investments in the year 2000 to centralize both the Rail operations and customer service facilities. The one-time investments will generate positive returns in the years to come as part of a commitment to enhance service and reduce costs.

An environmental remediation fund has been established. The special charge of $13 million that has been levied this year reflects the need to set up a reserve to finance on-going environmental remediation. The BCR Group works to high standards of environmental management of its Marine and Rail properties.

Finally, I would like to acknowledge the good work of the Group's Board of Directors, especially that of Dr. Harold Halvorson who retired in 2000 after eight successful years on the Board. Anne Stewart, Q.C., has ably filled the position on the Board. Ms. Stewart previously sat on the Board of BCR Properties.

Though there were and continue to be challenges, the BCR Group emerged from the year 2000 with a clearer focus on its core business of industrial transportation. The Company will continue to provide customers with a viable, competitive alternative allowing them to move their products to market in a reliable and cost effective way.

John T. Goldsmith
Chair, BCR Group of Companies
Interim President and Chief Executive Officer

The Board of Directors selected ROBERT PHILLIPS as the new President and Chief Executive Officer of the British Columbia Railway Company, effective March 19, 2001. Mr. Phillips has extensive executive experience in the natural resources and utility sectors as well as a background in law and engineering.

Year in Review

BC Rail

BC Rail was challenged during the year by the effects of market volatility on B.C. commodities. In particular, BC Rail experienced erosion in its lumber traffic due to the closure and consolidation of several forest product mills in the interior of the Province during 2000. The most immediate challenge faced by BC Rail during the year was the premature closing of the Quintette coal mine. The loss of significant volumes of northeast coal traffic, which moved in efficient unit trains, drastically reduced BC Rail's revenues and operating income.

While BC Rail's strategic plan continued to focus on developing replacement traffic within the railway's service region, the timeline was radically shortened when the Quintette coal mine closed in August 2000, removing two-thirds of BC Rail's remaining coal revenue almost three years earlier than expected.

The unexpected loss of this revenue more than cancelled out any gains made from increases in sulphur, grain and other bulk products. BC Rail was able to offset some of the losses by using a number of the coal rail cars to haul gravel for the Ministry of Transportation and Highways and by replacing electric locomotives on the reduced coal runs with less expensive, diesel powered engines.

As recently as 1997, coal accounted for more than 19% of BC Rail's revenue base. In 2001, it will be only 3.6%. The Quintette closure, coupled with steady declines in rates, reduced the coal contribution to operating profits by nearly $30 million since 1997. An additional loss of $8 million per year will be felt when the Bullmoose mine closes in 2004.

The problems with coal underscored the fact that BC Rail is becoming increasingly dependent on forest products – a concern given the highly cyclical nature of this industry sector.

During the late spring of 2000, prices for softwood products throughout North America dropped rapidly and forestry products companies began to shut down mills. In total, more than 90 weeks of production were lost along BC Rail's line. Since the forest products industry accounted for nearly half of BC Rail's total revenues, the effect of these closures was drastic and widespread.

The skyrocketing cost of fuel also had a negative impact on BC Rail during 2000. BC Rail partially buffered the effects of this increase by introducing a fuel-cost recovery program to customers in mid-October. To cut costs in the long term, a comprehensive fuel conservation program was undertaken. Smart Starts – technology that automatically shuts down idle locomotives to conserve fuel – was implemented and operating employees were trained with a computer simulator to perfect fuel conservation techniques.

A further loss of revenue came from a blockade of BC Rail's line by the Takla Lake First Nation Band in August and September. While BC Rail was not connected in any way to the issues that led to the blockade, the railway lost millions of dollars in log business.

BC Rail, like others in the railroad industry, also felt the effects of increased competition, particularly from trucking, which has triggered severe industry-wide erosion of freight rates. Since industry deregulation in 1987, BC Rail has experienced a 40-per-cent decline in its average freight rate yield, as measured by Revenues per Gross-Ton-Mile. Unlike the trucking industry, railways are burdened with a high ratio of fixed costs and are responsible for all of their own capital investment in transportation infrastructure. As a result, cost reduction in the face of severe revenue erosion continued to be a major challenge for the entire railway industry.

Pro-active maintenance projects designed to improve safety, reduce mishaps and increase operating efficiency continued throughout the year. Significant engineering projects included the reconstruction of the rail bridge at Pemberton and the upgrade of signals and infrastructure at Roberts Bank in the Lower Mainland. Maintenance-of-way crews replaced more ties on the northern subdivisions than in any year in the past decade.

BC Rail reduced costs by investing in higher horsepower, more fuel-efficient locomotives while continuing a program of consolidating maintenance shops and facilities.

Despite the many challenges in the operating environment, BC Rail continued its focus on customer service in 2000, developing a one-stop customer service centre during the year. Remote terminal operations were centralized at the BC Rail Centre in North Vancouver with full centralization of the terminal system to be completed in 2001. One-time costs associated with implementing this project will make way for significant cost savings and streamlined customer service in the years to come.

BC Rail partnered with the Canfor Corporation in 2000 to develop a new handling facility for wood chips in Prince George. As well as creating benefits for the railway and the community, this facility improved the competitive position of one of Rail's biggest customers.

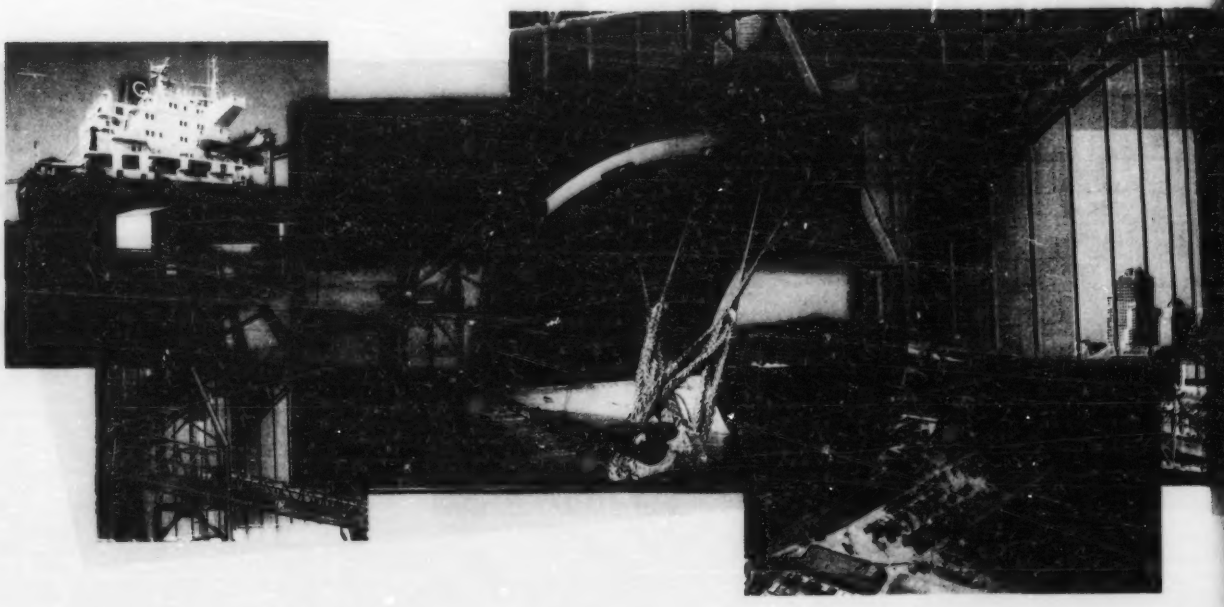
Intermodal

The Company increased its revenues from intermodal transportation during the year, but continued to struggle with high operating costs. The Company exited the market for smaller shipments – the less than trailer load (LTL) business – and concentrated on the handling of containers and reloading lumber shipments.

The Company acquired full ownership of Finlay Navigation, which operates barging services on Williston and Babine Lakes.

Passenger Service

The Company invested in its passenger service in 2000 with the purchase of new, high-quality passenger cars for the Northwind



service that will commence in 2001. The Northwind is designed for the high-end tourist market running weekly between North Vancouver and Prince George.

Cash flow at BC Rail was worsened by the obligation to operate unprofitable, passenger train services. In 2000, the operating losses from passenger services reduced BC Rail's operating income by some 10%. In 2000, it became necessary to remove the Royal Hudson steam locomotive from service indefinitely until funding can be secured for a major overhaul.

BCR Marine

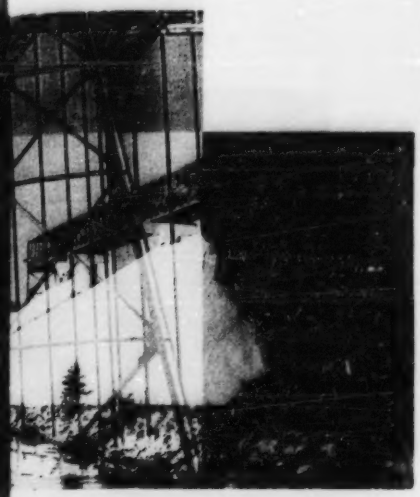
BCR Marine displayed strength in 2000 – its first full year of operating Canadian Stevedoring, Casco Terminals and Vancouver Wharves. BCR Marine was not only one of the largest players in this sector, but also one of the more successful, with revenues up significantly over 1999. The operating results validate earlier investments in BCR Marine and point to future growth for this division of the Company.

With BCR Marine's new structure and larger size, the Company worked to create efficiencies, increase productivity, offer a wider range of services and help customers be more competitive. BCR Marine's various divisions were well positioned as either number one or number two in their respective markets, with presence in two of the major growth markets in the Port of Vancouver – containers and specialty agri-products.

Canadian Stevedoring provided management and labour services to shippers and carriers involved in products including pulp, lumber, sugar, salt, automobiles, phosphorus and cattle. The Stevedoring business showed good growth for the year. Decentralized management, enthusiastic staff, increased volumes from the acquisition of Empire Stevedoring's customer base, and improvements in markets such as logs and grain, were all factors in Canadian Stevedoring's success.

The year 2000 was a record year for Casco Terminals as well. Casco handled 173,000 containers – 32,600 more than targeted for the year. In addition, Casco handled strong volumes of pulp, lumber and general cargo. Casco's success came despite a failure of the newest of its four primary cranes, reconfiguration of some of the rail tracks, and the renovation of one of its covered storage sheds. In addition to these issues, Casco management faced major challenges in meeting customer service expectations while dealing with container throughput in excess of the current design limit of 160,000 containers a year. Plans to enhance Casco's operating capacity beyond the 160,000 level to meet container market growth were initiated during the year. At the same time, progress was made towards the negotiation of a 29-year lease with the Vancouver Port Authority, to create stability for future investments at Casco.

Vancouver Wharves, one of the largest multi-product, deep-sea loading terminals on the Pacific Coast, also experienced a year of



transition and success. New systems were successfully put in place and service levels for customers were maintained despite the changes and start-up challenges. The Company's investment in new bulk handling capability at Vancouver Wharves included a loop track system to support a world class sulphur/fertilizer handling facility designed to significantly improve rail unloading and vessel loading performance for shippers. In March, the Company also achieved its targeted operating results on its new sulphur/fertilizer system. This system can handle a unit train in less than five hours.

The investment at Vancouver Wharves also included a new state-of-the-art handling system for specialty agri-products. The gentle-handle characteristics of this system will help attract increased volumes of rapidly growing specialty-crop exports from Western Canada. New rail loading and unloading facilities to handle mineral concentrates in an enclosed manner were also completed during the year with the support of our mining customers.

Properties and Ventures

During the year, the Company sold 19 non-transportation-related real estate investments as part of a successful strategic shift to focus exclusively on transportation-related property. The proceeds of $106 million were used to reduce debt and support transportation investments. Properties had developed a strategy through the 1990s of broader acquisitions as part of the effort to buffer the Group from declines at BC Rail. The revenue growth at Marine has allowed the Group to return to its core competency.

With the new strategic direction, BCR Properties will support the core transportation business, including shipper sites, the leasing of land in our industrial parks and sale of surplus land.

BCR Ventures successfully concluded during 2000 its role in the development of a coal mining property to be operated by Pine Valley Coal at Willow Creek near Chetwynd. Early in 2001, BCR Ventures recovered its original investment in the project after seeding the development that has created potential for more than a decade of coal shipments and economic benefits at Willow Creek.

Established in 1996, BCR Ventures has a mandate to develop new rail traffic through joint ventures in resource development projects along the BC Rail system.

Safety and Customer Service

Safety

Employee safety is a cornerstone of the Company's operations. Efforts to maintain and improve safety practices and awareness continued throughout 2000.

The principal advance in safety promotion during the year was the establishment of a Safety Management System (SMS) at BC Rail. SMS is a formal framework for integrating safety into day-to-day railway operations. The comprehensive system includes specialized training for supervisors, a manager "mentoring" program, creation of safety strategy teams, and increased efforts in investigating accidents and injuries. Development was initiated for standard personal protective equipment for all BC Rail operations. Accident, injury and hazard reporting processes were established in 2000, as was training for emergency procedures at remote terminals. As a result of increased safety awareness, lost time injuries decreased in all areas of operations at BC Rail.

Safety issues remain a constant concern for the Company regardless of market and financial fluctuations.

Customer Service

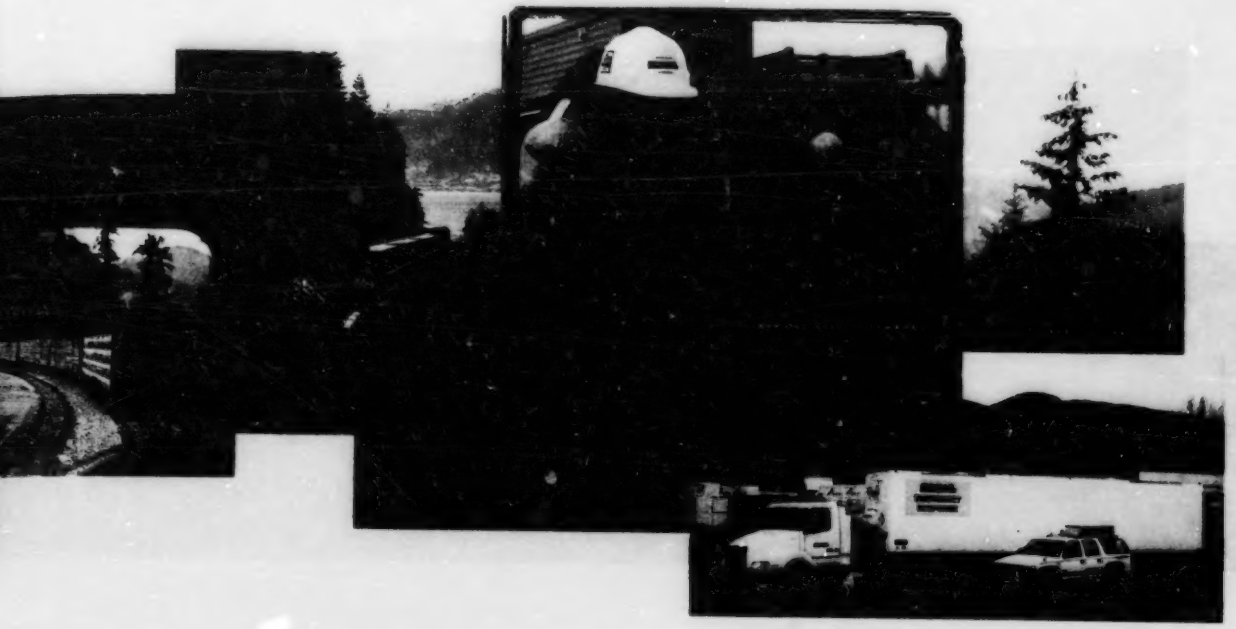
The Company's commitment to improving customer service is a continuous effort that relies on the input of customers and the ideas and participation of all BCR Group employees.

Early in the year, BC Rail met with its top 15 customers (who account for 80% of the Company's business) to gauge what improvements needed to be made to current systems. Throughout the year, new service initiatives were put in place.

The most significant investment during the year was the centralization of customer service operations at the Company's North Vancouver headquarters. This consolidation will streamline customer services. The new system will enhance efficiency and accuracy that will make the Company a customer service leader.

The new location and shared computer technologies allowed the Company to create a "one-stop" service for customers who need to track shipments, schedule delivery of rail cars and other services. Other new services introduced in 2000 included electronic bills of lading and a new computerized billing system at Canadian Stevedoring. Use of the Company's Internet technology also increased throughout the year. E-commerce increased to more than 87,000 transactions compared to the 25,000 made in 1999.

BCR Marine conducted a survey of its customers to measure satisfaction, identify and act on areas needing improvement and create a baseline for future evaluations. A similar process has begun at BC Rail.



Environmental Report

Rail continues to be the most environmentally friendly form of commercial transportation. Building on that strength, BCR Group employees continued their efforts to protect the environment.

A major initiative was undertaken in 2000 to increase the level of environmental awareness by employees whose work is typically carried out in areas of high environmental sensitivity. Topics studied by employees included proper fuel and waste handling practices, environmental regulations, habitat and fishery issues, and environmental emergency response.

BC Rail's environmental service group developed a long-term pest management program. The document is designed to be a template for long term management and use of weed control substances on BC Rail's right of way and in its rail yards. Public consultations were held on the plan and BC Rail has submitted it to the Province for approval.

Fuel consumption was also a factor in the BCR Group's campaign for the environment. Though shipping by rail or ship is six times more fuel-efficient than shipping by truck, that efficiency can be improved further with new technology and awareness. BC Rail enhanced its fuel efficiency with the acquisition of nine new locomotives. The GE Dash 9 six-axle locomotives bring to the BC Rail fleet improvements such as decreased fuel consumption, increased horsepower and reduced exhaust emissions, plus safety features such as electronically controlled braking. The extreme increase in fuel prices that was experienced in 2000 was also a catalyst for BC Rail to reduce fuel consumption. Smart Starts technology, which automatically shuts down idle locomotive engines, was implemented during 2000. Locomotive operators also underwent simulator training to learn best train handling practices to conserve fuel.

The Group recognizes the need to restore industrial sites to acceptable standards. As a result, a special charge of $13 million was recorded in the accounts which is management's estimate of the costs to be incurred over the next 10 years.

The initiatives implemented in 2000 by the Company will have a lasting impact on the environment. The BCR Group's commitment to the environment will continue into the coming years as new technologies and methods of conservation arise.

Aboriginal Affairs

The Company moved forward with a wide range of activities during the year to improve relations with neighbouring First Nations.

One clear indicator of progress was the signing of an umbrella agreement involving the Squamish Nation, the Province of B.C. and the Company. The agreement allows for the designation of about 60 per cent of the Squamish estuary for conservation with the formation of a Wildlife Management Area. Areas adjacent to an existing industrial area are designated for commercial and deep-sea port development.

The key components of the agreement included the Company handing over 353 hectares of estuary land to the Province, in exchange for a 64.1-hectare parcel of land which may be developed into a deep-sea port in a joint venture with the Squamish First Nation Band.

In related agreements, Company properties in the interior will be exchanged with the Province for 97 hectares of land south of Porteau Provincial Park, while an 11-hectare portion of land was transferred from the Company to the Province as an addition to Stawamus Chief Provincial Park. The Squamish Nation also can opt to buy Company land at Porteau Cove to add to reserve lands. The agreements were the result of sustained efforts by all parties.

The Company contributed to these good relations through a series of cross-cultural activities. BC Rail's Aboriginal Relations Committee and other Company executives toured the Soda Creek First Nation's Xats'ull Heritage Village on the Fraser River at Deep Creek. The Company continued to play a significant role in sustaining the Xats'ull Heritage Village cultural tourism economic venture near Williams Lake. First Nations representatives also participated in "brown bag" lunches at various Company locations to improve a common understanding of issues.

To support First Nations for the future, the Company awarded 13 scholarships during the year to aboriginal students who have successfully completed the first year of full-time post secondary education. The Company scholarships are open to aboriginal students from any of the 25 First Nations that neighbour the BC Rail system.

Performance Plan

The BCR Group operates as a commercially competitive corporation and restricts dissemination of sensitive information that could damage the Company's competitive position. Only consolidated, historical results are currently published. However, the Company measures its performance against goals and strategic activities.

Going forward, BC Rail will focus its efforts in two key areas: increasing freight transportation revenues and improving the productivity of BC Rail's human resources, fleets of rolling stock and facilities.

BCR Marine will become an industry leader in customer service, occupational health and safety, environmental standards, employee training and competitiveness. Strategies have been developed to meet these goals. A detailed discussion of the Company strategic direction can be found on the Company's web site at www.bcrgroup.com/bulletins.

The year 2000 saw the commissioning of a major capital project at BCR Marine. No new major capital projects were undertaken during the year.

Regulatory

The Company plays an important role in stimulating and balancing competition in the transportation marketplace for companies operating in B.C. In a series of submissions to the Canadian Transportation Act Review Panel, BC Rail encouraged the federal review panel to consider allowing regional carriers such as BC Rail to have greater competitive access for the interchange of traffic with the larger, federally regulated railroads.

FINANCIALS 2000

RESULTS OF 2000 COMPARED TO 1999

The BCR Group's 2000 net loss of $6.7 million compares to a net loss for 1999 of $582.1 million. In each year the Company recorded special charges that are discussed more fully below.

Before special charges, income was $6.3 million in 2000, a reduction of $28.2 million from 1999's $34.5 million.

Unexpected and severe downturns in the coal and forestry sectors adversely impacted the Company's revenues and net income in 2000. With the closure of the Quintette coal mine at Tumbler Ridge, the Company has lost the largest coal customer on its rail system. The remaining mine at Tumbler Ridge, the Bullmoose mine, is slated to close in 2004.

REVENUES

Consolidated revenues for 2000 were $495.7 million, up $17.7 million or 4% from 1999.

Revenues increased as a result of strong performances from container, sulphur and agri-products (grain, pulses and legumes) traffic.

Revenues from container traffic increased by 25% to $44.4 million. The Company was able to take advantage of a full-year of increased capacity from the creation of an additional seven acres on the in-fill byte on the south shore of Vancouver Harbour and the resultant re-configuration of yard operations to respond to the increased container customer demand. Stronger sulphur markets resulting from increased demand from new markets together with the improved sulphur handling facility at Vancouver Wharves provided revenues of $38.2 million, a 25% increase from 1999 levels. Agri-product revenues overall increased by 50% to $13.2 million. Commissioning of the new agri-products facility provided a new source of business handling specialty grains.

However, revenues were also impacted by the poor performance of the Group's solid wood and coal business.

Weak lumber markets in Canada and the U.S adversely affected results. Lumber prices fell to a low of $200 per mfbm (thousand board feet) compared to 1999's average of $340 per mfbm. This resulted in unplanned mill production curtailments equating to ninety weeks of production and lumber revenues fell by $3.4 million to $53.5 million. First Nations blockaded the Takla rail line for almost two months, significantly impacting the shipment of logs out of the Takla area. Slightly offset by increases from log volumes from other areas, revenue from logs and poles was $25.2 million, down by $1.1 million. Coal mines in the northeastern part of the province have struggled with declining coal prices and markets in the recent past and as a result, the Quintette mine at Tumbler Ridge closed in August of 2000 – three years earlier than expected. Quintette was the larger of the two operating coal mines on the BC Rail line. Coal revenues for 2000 were $16.8 million, a reduction of $12.3 million or 42%.

In December of 2000, the Company sold its portfolio of non-transportation related revenue-producing properties for gross proceeds of $106 million for a net gain of $3 million.

OPERATING EXPENSES

Consolidated operating expenses increased 10%, from $411.2 million to $451.5 million.

Labour costs increased by 8%, from $199.4 million in 1999 to $214.6 million, as a result of additional effort to support increased traffic levels as well as one-time reorganization costs.

Amortization expense decreased by $9.8 million to $59 million. Amortization associated with new capital acquisitions was more than offset by reductions related to the write-down of assets at the end of 1999.

Purchased services and other expense increased by $13.3 million or 35% to $50.8 million. Increases include one-time costs associated with centralization of BC Rail's work order centre and system costs for creation of the new, computerized operating plan.

Lease expense increased by $10.8 million or 35% to $42 million primarily because of a reclassification of car hire credits to revenues in 2000 as well as increased car hire expense and locomotive lease expense to meet customer service requirements.

Materials and supplies increased $3 million or 9% to $38.5 million.

Fuel costs were 35% higher in 2000 - $35.1 million compared to $25.9 million, an increase of $9.2 million. The cost of crude oil has risen significantly over the past three years, from $14.42 per barrel in 1998, to $19.23 per barrel in 1999, and $30.11 per barrel in 2000 – an increase of more than 200%.

Capital and operating taxes declined by $1.2 million or 10% to $11.6 million as a result of the write-down of assets at the end of 1999.

NON-OPERATING EXPENSES

Consolidated non-operating expenses increased by 17% from $32.4 million to $38 million. Interest expense increased by $5.4 million, primarily a result of increased borrowings necessitated by the shortfall in cash provided by operations to fund capital expenditures. Debt reduction financed by the sale of revenue-producing properties took place at the end of 2000, with only a minimal effect on interest expense.

SPECIAL CHARGES

Results for 2000 include a special charge of $13 million in relation to environmental matters. The risk of environmental liability is inherent in the operation of railways, terminal facilities and property management companies. The company administers an ongoing program to ensure compliance to environmental regulation, identify potential environmental concerns and to remediate contamination on a proactive risk assessment basis. The Group recorded the charge in 2000 for both anticipated expenditures on environmental remediation programs to the year 2010 and expected liabilities in relation to specific sites.

The special charge in 1999 of $616.6 million related principally to the write-down of rail assets supporting the Tumbler Ridge coal mines.

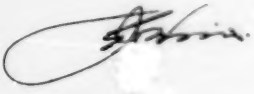
Report of Management

The accompanying consolidated financial statements of British Columbia Railway Company and all other information contained in the Annual Report are the responsibility of management. The consolidated financial statements were prepared in conformity with Canadian generally accepted accounting principles appropriate in the circumstances in a manner consistent with the previous year and, accordingly, include some amounts based on management's best judgments and estimates. The financial information contained elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

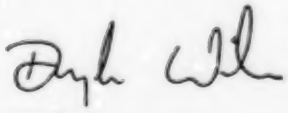
Management is responsible for maintaining a system of internal accounting controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that assets are safeguarded and transactions are authorized, recorded and reported properly. The internal accounting control system is augmented by a program of internal audits and appropriate reviews by management, written policies and guidelines and a written Code of Business Conduct adopted by the Board of Directors, applicable to all employees of the Company. Management believes that the Company's internal accounting controls provide reasonable assurance that assets are safeguarded against material loss from unauthorized use or disposition and that the financial records are reliable for preparing financial statements and other data and maintaining accountability for assets.

The Audit and Finance Committee of the Board of Directors, composed of directors, the majority of whom are not officers of the Company, meets with the independent auditors, management and internal auditors periodically to discuss internal accounting controls, auditing and financial reporting matters. The committee reviews with the independent auditors the scope and results of the audit effort. The committee also meets with the independent auditors without management present to ensure that the independent auditors have free access to the committee. The committee reviews the consolidated annual financial statements and recommends their approval by the Board of Directors.

The independent auditors, KPMG LLP Chartered Accountants, are appointed by the Lieutenant Governor in Council to examine the financial statements of British Columbia Railway Company and conduct such tests and related procedures as they deem necessary in conformity with Canadian generally accepted auditing standards. The opinion of the independent auditors, based upon their examination of the financial statements, is contained in this Annual Report.



John T. Goldsmith,
Interim President and
Chief Executive Officer



D. A. Wilkes
Group Vice-President, Finance
and Chief Financial Officer

Auditor's Report

To the Lieutenant Governor in Council

Province of British Columbia

We have audited the consolidated balance sheet of British Columbia Railway Company as at December 31, 2000 and the consolidated statement of income and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

February 16, 2001

Consolidated Income and Retained Earnings

(Dollars in thousands) (restated Note 13)

For the years ended December 31	2000	1999
Revenues	$ 495,721	$ 478,053
Expenses		
Labour costs	214,585	199,429
Amortization	59,015	68,844
Purchased services and other	50,752	37,472
Lease expense	41,993	31,221
Materials and supplies	38,500	35,475
Fuel	35,053	25,936
Capital and operating taxes	11,553	12,790
	451,451	411,167
Operating income	44,270	66,886
Non-operating expenses		
Interest - Note 8	37,918	32,491
Income taxes - Note 9 - current	108	(728)
- future	(35)	599
Income, before special charges	6,279	34,524
Special charges		
Environmental - Note 7	13,000	–
Asset write-down - Note 2	–	616,583
Net loss	(6,721)	(582,059)
Retained earnings (deficit), beginning of year	–	349,307
Adjustment to vacation pay accrual - Note 13	(3,042)	(3,459)
Recognition of accrued pension benefit asset - Note 13	951	–
Retained earnings (deficit), beginning of year - restated	(2,091)	345,848
Elimination of deficit - Note 5	–	233,169
Deficit, end of year	$ (8,812)	$ (3,042)

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(Dollars in thousands) (restated Note 13)

December 31	2000	1999
ASSETS		
Current assets		
Cash and cash equivalents	$ 18,525	$ 26,780
Accounts receivable	88,959	77,384
Inventories and other items	31,638	27,548
	139,122	131,712
Property and equipment - Note 2	1,109,961	1,145,864
Other assets - Note 3	122,643	109,280
	$1,371,726	$ 1,386,856
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 121,204	$ 121,980
Short-term notes payable to the Province	50,596	19,993
Current obligations on long-term debt - Note 4	8,833	27,321
	180,633	169,294
Other liabilities	78,544	56,487
Deferred revenue	23,908	25,927
Long-term debt - Note 4	562,218	602,955
	845,303	854,663
Shareholder's equity		
Share capital - Note 5	257,688	257,688
Contributed surplus - Note 5	277,547	277,547
Deficit	(8,812)	(3,042)
	526,423	532,193
Commitments - Note 6		
Contingent liabilities and environmental matters - Note 7		
	$1,371,726	$ 1,386,856

On behalf of the Board

John Goldsmith
Director

Hugh Gordon
Director

Consolidated Statement of Cash Flows

(Dollars in Thousands) (restated (note 13))

For the years ended December 31	2000	1999
Operating activities		
Net loss	$ (6,721)	$ (582,059)
Add (deduct)		
Items not affecting working capital		
Gain on sale of land and buildings	(9,569)	(494)
Amortization	60,358	65,893
Post employment benefit expense	(1,343)	3,393
Future income taxes	(35)	599
Deferred revenue	(1,935)	(562)
Special charges (Notes 2 and 7)	13,000	616,583
Net change in non-cash working capital (Note 11)	(15,818)	21,201
	$ 37,937	$ 124,554
Investing activities		
Purchase of property and equipment	(121,786)	(158,842)
Proceeds on sale of property and equipment, net of selling costs	109,964	14,191
Acquisition of Canadian Stevedoring Company Limited	-	(281)
Investment in Finlay Navigation Limited Partnership (Note 3)	2,208	(3,407)
Additions to insurance deposits	(3,974)	(11,282)
Additions to other assets	(7,000)	(12,259)
	(20,588)	(171,880)
Financing activities		
Net changes in notes payable to the Province	30,603	19,993
Payments and interest earned on sinking funds	(6,366)	(7,630)
Proceeds from long-term borrowings	4,838	106,814
Repayment of long-term debt	(60,622)	(100,101)
Net change in other liabilities	5,943	(3,906)
	(25,604)	15,170
Decrease in cash position	(8,255)	(32,156)
Cash position, beginning of year	26,780	58,936
Cash position, end of year	$ 18,525	$ 26,780

Cash position is defined as cash and cash equivalents.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (Tabular Amounts in Thousands of Dollars)

British Columbia Railway Company is owned by the Province of British Columbia and was incorporated under the British Columbia Railway Act.

The Company provides fully integrated transportation services within British Columbia including rail, intermodal, deep-sea terminals and stevedoring.

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the accounts of British Columbia Railway Company and all significant subsidiaries. In these notes, "Company" refers to British Columbia Railway Company, its subsidiaries and partnerships. All significant inter-company transactions have been eliminated.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of net recoverable value of assets, useful lives for amortization, and provisions for post employment benefits, contingencies and environmental matters. Actual amounts may ultimately differ from these estimates.

Inventories and other items

Inventories of material and supplies are valued at the lower of average cost and net realizable value.

Property and equipment

Road property is recorded at cost, net of government grants. Abandoned or relocated sections are removed at average unit costs. Elements of track structure installed during planned programs are recorded at cost and the material replaced is removed at amounts which approximate average unit costs. Labour costs for programmed replacements are expensed as incurred. Repairs and non-programmed replacements of track structure are charged against current operations. Betterments and major track relocations are capitalized.

Amortization

In accordance with generally accepted accounting practice in Canada, property and equipment is amortized on a straight-line basis over the estimated useful lives. The cost of assets retired or disposed, less salvage value, is charged against accumulated amortization in accordance with the group method of amortization. No gain or loss on retirements, other than on accidental destruction of rolling stock and on disposal of land and commercial property, is included in income. The original cost of assets less estimated salvage value is amortized over the following number of years:

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	Number of Years
Road and buildings	
Tunnels	150
Grade	100
Bridges	30 - 80
Rail, ties and ballast	25 - 35
Wharves and buildings	10 - 40

	Number of Years
Equipment	
Locomotives	25
Freight cars	15 - 33
Handling and other equipment	3 - 20

Goodwill

Goodwill is amortized over its expected useful life of 20 to 25 years.

Income taxes

During 2000, the Company adopted the new CICA accounting standard relating to future income tax assets and liabilities method of accounting for income taxes. Under this method changes in future tax asset and liability balances are included in income. These balances are determined by using the enacted tax rates that are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled (Note 9).

Foreign currency amounts

Transactions denominated in a foreign currency are translated at the exchange rates prevailing at the date of transactions. Assets and liabilities denominated in a foreign currency at the balance sheet date, except those subject to swap agreements (Note 4), are translated to equivalent Canadian amounts at the exchange rate in effect on that date.

Post employment benefits

The Company accrues its obligations under employee benefit plans and the related costs as benefits are earned, net of returns on plan assets. The Company policies are as follows:

i) The cost of retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

ii) The expected interest cost on any prior service obligation is calculated using management's estimate for the long-term rate of return.

iii) The expected return on plan assets is calculated at a market-related value for the assets.

iv) Past service costs from plan amendments, experience gains and losses and any changes in assumptions are amortized on a straight-line basis over the expected average remaining service period of active employees and included in the pension expense for the year.

2. PROPERTY AND EQUIPMENT

	2000			1999		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Road and Buildings	$ 1,574,285	$ 968,976	$ 605,309	$ 1,655,053	$ 964,426	$ 690,627
Equipment	724,744	264,185	460,559	674,726	253,749	420,977
Equipment under capital lease	35,910	26,827	9,083	36,350	26,694	9,656
Construction in progress	35,010	-	35,010	24,604	-	24,604
	$ 2,369,949	$ 1,259,988	$ 1,109,961	$ 2,390,733	$ 1,244,869	$ 1,145,864

During 2000 the Company sold commercial properties not related to its transportation business for gross proceeds of $106 million for a net gain of $3 million.

During 1999, management determined that future cash flows from the Northeast Coal mines on the Tumbler Ridge subdivision would not be sufficient to recover the net carrying value of the subdivision assets and that a write down was warranted. A subsequent review indicated that a write down was also necessary for other segments north of Prince George. As a result, the carrying value of the property and equipment, inventory and other assets related to these rail assets was reduced by $608 million and the full amount charged to income. The amount of the write down was determined by comparing the future undiscounted cash flows from these rail segments to the net carrying value of the assets. In addition, $9 million of marine buildings were written down to their net recoverable amounts for a total write down for the Company of $617 million.

3. OTHER ASSETS

	2000	1999
Goodwill		
Cost	$ 37,340	$ 39,548
Accumulated amortization	(3,585)	(1,989)
	33,755	37,559
Insurance deposits	24,472	20,498
Deferred expenses	23,919	21,177
Accrued benefit asset	15,407	8,685
Other	25,090	21,361
	$ 122,643	$ 109,280

Effective September 1, 2000, the Company acquired the remaining 50% interest in Finlay Navigation Limited Partnership to increase its interest to 100%. The acquisition resulted in goodwill being reduced $2 million.

4. LONG-TERM DEBT

Long-term debt outstanding, less current maturities, consists of the following:

	2000	1999
Sinking fund bonds, notes and debentures payable to the Province of British Columbia (the Province)		
7.25%, due August 2000	$ –	$ 25,000
8.00%, due August 2005	44,000	44,000
10.99%, due August 2005	24,490	24,490
6.0%, due June 2008	50,000	50,000
6.377%, due July 2009	150,000	150,000
8.00%, due June 2026	50,000	50,000
6.15%, due November 2027	25,000	25,000
5.70%, due June 2029	175,000	175,000
5.75%, due January 2039	50,000	50,000
	568,490	593,490
Term project loan	–	2,175
Capital lease obligations	17,902	17,260
Mortgage payable	733	24,153
Other long-term notes payable	1,195	7,108
	588,320	644,186
Less:		
Sinking funds	17,269	13,910
Current portion	8,833	27,321
	$ 562,218	$ 602,955

The sinking fund bonds, notes and debentures payable to the Province of British Columbia are unsecured.

The 6.377% note is a French franc note subject to swap agreements arranged by the Company's fiscal agent, the Province, that effectively converts the note into a Canadian dollar obligation due to the Province.

Effective interest rates for assets under capital leases recorded in the property and equipment accounts as at December 31, 2000 are in the range of 5.6% to 13.1%. The following is a schedule of future capital lease payments at December 31, 2000 that have remaining terms in excess of one year:

2001	$ 5,390
2002	3,955
2003	3,955
2004	1,965
2005	1,965
Later years	14,621
Total minimum lease payments	31,851
Less:	
Executory costs	4,888
Imputed interest	9,061
Net liability	$ 17,902

5. SHARE CAPITAL

Authorized:

10,000,000 shares with a par value of $100 each.

Issued and outstanding:

2,576,885 shares held by the Province.

On March 29, 2000, the shareholder approved a $233,169,000 reduction in the contributed surplus of the Company, with a corresponding elimination of the deficit of $233,169,000 at December 31, 1999.

6. COMMITMENTS

The following is a schedule of future minimum payments at December 31, 2000, required under non-cancelable operating leases that have terms in excess of one year:

2001	$ 22,913
2002	15,317
2003	9,129
2004	5,584
2005	2,264
Later years	10,957
Total minimum lease payments	$ 66,164

At December 31, 2000, the Company had outstanding commitments to acquire material and equipment amounting to $21 million.

7. CONTINGENT LIABILITIES AND ENVIRONMENTAL MATTERS

Litigation

The Company is contingently liable with respect to pending litigation and claims arising in the normal course of business. In the opinion of management, any liability that may arise would not have a material adverse effect on future income as sufficient provisions have been made.

	Number of Years
Road and buildings	
Tunnels	150
Grade	100
Bridges	30 - 80
Rail, ties and ballast	25 - 35
Wharves and buildings	10 - 40

	Number of Years
Equipment	
Locomotives	25
Freight cars	15 - 33
Handling and other equipment	3 - 20

Goodwill

Goodwill is amortized over its expected useful life of 20 to 25 years.

Income taxes

During 2000, the Company adopted the new CICA accounting standard relating to future income tax assets and liabilities method of accounting for income taxes. Under this method changes in future tax asset and liability balances are included in income. These balances are determined by using the enacted tax rates that are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled (Note 9).

Foreign currency amounts

Transactions denominated in a foreign currency are translated at the exchange rates prevailing at the date of transactions. Assets and liabilities denominated in a foreign currency at the balance sheet date, except those subject to swap agreements (Note 4), are translated to equivalent Canadian amounts at the exchange rate in effect on that date.

Post employment benefits

The Company accrues its obligations under employee benefit plans and the related costs as benefits are earned, net of returns on plan assets. The Company policies are as follows:

i) The cost of retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

ii) The expected interest cost on any prior service obligation is calculated using management's estimate for the long-term rate of return.

iii) The expected return on plan assets is calculated at a market-related value for the assets.

iv) Past service costs from plan amendments, experience gains and losses and any changes in assumptions are amortized on a straight-line basis over the expected average remaining service period of active employees and included in the pension expense for the year.

2. PROPERTY AND EQUIPMENT

	2000			1999		
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Equipment	724,744	264,185	460,559	674,726	253,749	420,977
Equipment under capital lease	35,910	26,827	9,083	36,350	26,694	9,656
Construction in progress	35,010	–	35,010	24,604	–	24,604
	$ 2,369,949	$ 1,259,988	$ 1,109,961	$ 2,390,733	$ 1,244,869	$ 1,145,864

During 2000 the Company sold commercial properties not related to its transportation business for gross proceeds of $106 million for a net gain of $3 million.

During 1999, management determined that future cash flows from the Northeast Coal mines on the Tumbler Ridge subdivision would not be sufficient to recover the net carrying value of the subdivision assets and that a write down was warranted. A subsequent review indicated that a write down was also necessary for other segments north of Prince George. As a result, the carrying value of the property and equipment, inventory and other assets related to these rail assets was reduced by $608 million and the full amount charged to income. The amount of the write down was determined by comparing the future undiscounted cash flows from these rail segments to the net carrying value of the assets. In addition, $9 million of marine buildings were written down to their net recoverable amounts for a total write down for the Company of $617 million.

Notes to Consolidated Financial Statements

3. OTHER ASSETS

	2000	1999
Goodwill		
Cost	$ 37,340	$ 39,548
Accumulated amortization	(3,585)	(1,989)
	33,755	37,559
Insurance deposits	24,472	20,498
Deferred expenses	23,919	21,177
Accrued benefit asset	15,407	8,685
Other	25,090	21,361
	$ 122,643	$ 109,280

Effective September 1, 2000, the Company acquired the remaining 50% interest in Finlay Navigation Limited Partnership to increase its interest to 100%. The acquisition resulted in goodwill being reduced $2 million.

4. LONG-TERM DEBT

Long-term debt outstanding, less current maturities, consists of the following:

	2000	1999
Sinking fund bonds, notes and debentures payable to the Province of British Columbia (the Province)		
7.25%, due August 2000	$ -	$ 25,000
8.00%, due August 2005	44,000	44,000
10.99%, due August 2005	24,490	24,490
6.0%, due June 2008	50,000	50,000
6.377%, due July 2009	150,000	150,000
8.00%, due June 2026	50,000	50,000
6.15%, due November 2027	25,000	25,000
5.70%, due June 2029	175,000	175,000
5.75%, due January 2039	50,000	50,000
	568,490	593,490
Term project loan	-	2,175
Capital lease obligations	17,902	17,260
Mortgage payable	733	24,153
Other long-term notes payable	1,195	7,108
	588,320	644,186
Less:		
Sinking funds	17,269	13,910
Current portion	8,833	27,321
	$ 562,218	$ 602,955

The sinking fund bonds, notes and debentures payable to the Province of British Columbia are unsecured.

The 6.377% note is a French franc note subject to swap agreements arranged by the Company's fiscal agent, the Province, that effectively converts the note into a Canadian dollar obligation due to the Province.

Effective interest rates for assets under capital leases recorded in the property and equipment accounts as at December 31, 2000 are in the range of 5.6% to 13.1%. The following is a schedule of future capital lease payments at December 31, 2000 that have remaining terms in excess of one year:

2001	$ 5,390
2002	3,955
2003	3,955
2004	1,965
2005	1,965
Later years	14,621
Total minimum lease payments	31,851
Less:	
Executory costs	4,888
Imputed interest	9,061
Net liability	$ 17,902

5. SHARE CAPITAL

Authorized:
10,000,000 shares with a par value of $100 each.

Issued and outstanding:
2,576,885 shares held by the Province.

On March 29, 2000, the shareholder approved a $233,169,000 reduction in the contributed surplus of the Company, with a corresponding elimination of the deficit of $233,169,000 at December 31, 1999.

6. COMMITMENTS

The following is a schedule of future minimum payments at December 31, 2000, required under non-cancelable operating leases that have terms in excess of one year:

2001	$ 22,913
2002	15,317
2003	9,129
2004	5,584
2005	2,264
Later years	10,957
Total minimum lease payments	$ 66,164

At December 31, 2000, the Company had outstanding commitments to acquire material and equipment amounting to $21 million.

7. CONTINGENT LIABILITIES AND ENVIRONMENTAL MATTERS

Litigation
The Company is contingently liable with respect to pending litigation and claims arising in the normal course of business. In the opinion of management, any liability that may arise would not have a material adverse effect on future income as sufficient provisions have been made.

Joint Ventures

The Company is participating in a joint venture to develop coal deposits in central British Columbia and has earned a one-third equity interest in the coal property. As a member in the Willow Creek Joint Venture, the Company is contingently liable for all debts and liabilities of the joint venture. On January 9, 2001, the Company sold its interest in the joint venture and fully recovered the cost of its investment.

Environmental matters

The risk of environmental liability is inherent in the operation of railways, terminal facilities, and property management companies with respect to both current and past operations. As a result, the Company incurs significant costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements.

As at December 31, 2000, the Company has recorded a $13 million charge for both anticipated expenditures on environmental remediation programs to the year 2010 and expected liabilities in relation to specific sites.

The Company believes it has identified the costs likely to be incurred in the next several years, based on known information. However, ongoing efforts to identify potential environmental concerns associated with the Company's properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities, the magnitude of which cannot be reasonably estimated.

8. INTEREST

	2000	1999
Interest on long-term debt and notes to the Province	$ 41,833	$ 39,399
Interest on other long-term debt	1,485	2,832
Interest on capital lease obligations	1,696	1,403
	45,014	43,634
Less:		
Sinking fund earnings	892	949
Interest earned on temporary investments	2,772	3,416
Interest capitalized	3,432	6,778
	7,096	11,143
	$ 37,918	$ 32,491

9. INCOME TAX

As at December 31, 2000, the Company had available tax losses carried forward aggregating $239 million and excess of tax values over net book value totaling $900 million. The future tax benefits have not been recorded as future tax assets.

The tax losses available to be carried forward expire as follows:

2001	$ 22,000
2002	24,000
2003	42,000
2004	13,000
2005	32,000
2006	45,000
2007	61,000
Total	$239,000

10. EMPLOYEE BENEFITS

The Company has a number of defined benefit plans providing pension and other retirement and post employment benefits to most of its employees. The amounts presented in this note are actuarial determined projections.

	Pension Plans		Other Plans	
	2000	1999	2000	1999
Reconciliation of accrued benefit asset (obligation)				
Opening balance	$(472,009)	$(439,776)	$(29,142)	$(35,663)
Current service cost	(15,118)	(15,220)	(711)	(1,044)
Benefits paid	16,396	15,406	822	784
Interest cost	(30,491)	(30,896)	(2,135)	(2,179)
Actuarial gains (losses)	69,780	(1,523)	951	8,960
Ending balance	(431,442)	(472,009)	(30,215)	(29,142)
Reconciliation of plan assets				
Opening balance	530,775	504,062	–	-
Actual return on plan assets	143,080	35,544	822	-
Employer contributions	900	6,500	–	-
Employee contributions	66	75	–	-
Benefits	(17,375)	(15,406)	(822)	-
Ending balance	657,446	530,775	–	-
Fund status – surplus (deficit)	226,004	58,766	(30,215)	(29,142)
Unamortized transitional obligation and actuarial gain	(210,597)	(50,081)	(9,507)	(8,960)
Accrued benefit asset (liability)	$15,407	$8,685	$(39,722)	$(38,102)

Significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows as of December 31:

	Pension Plans		Other Plans	
	2000	1999	2000	1999
Discount rate	7.5%	7%	7.5%	6%
Expected long-term rate of return on plan assets	7.0%	7%	–	-

The weighted average rate of increase in the per capita cost of future covered health care benefits was assumed to be 8% in 2000 (1999 - 6.3%) and declines to 4.5% annually after six years.

The plan asset portfolio currently comprises equity investments and debt. Equity investments are 50% - 70% of the portfolio and include Canadian, International, and Real Estate investments. Debt is 30% - 50% of the portfolio and comprises short term debt, bonds and mortgages. Asset mix is reviewed periodically and may vary in the future.

The Company's net benefit plan expense is as follows:

	Pension Plans		Other Plans	
	2000	1999	2000	1999
Current service cost	$ 15,053	$ 9,321	$ 711	$ 1,044
Interest cost	30,491	30,896	2,135	2,179
Expected return on plan assets	(39,217)	(34,940)	–	–
Amortization of transitional asset, actuarial gains and losses	(10,113)	(5,107)	(403)	–
Net benefit plan expense (income)	$ (3,786)	$ 170	$ 2,443	$ 3,223

11. CASH FLOWS – ADDITIONAL INFORMATION

The following is an analysis of the change in non-cash working capital:

	2000	1999
Accounts receivable	$ (11,575)	$ 21,993
Inventories and other items	(4,090)	(7,269)
Accounts payable	(776)	3,577
Deferred revenue	623	2,900
	$ (15,818)	$ 21,201

The following interest was paid/received in the current year:

	2000	1999
Interest paid to third parties	$ 45,327	$ 47,396
Interest received from third parties	3,634	4,578
	$ 41,693	$ 42,818

The following are non-cash transactions recorded during the year:

	2000	1999
Other assets and mortgages payable	$ 294	$ 4,510
Road and building and mortgages receivable	6,987	7,089
Assets acquired under capital lease	2,632	3,353
	$ 9,913	$ 14,952

12. FINANCIAL INSTRUMENTS

For certain of the Company's financial instruments, including cash equivalents, accounts receivable, and accounts payable and accrued liabilities, the carrying amounts approximate fair value due to their immediate or short-term maturity.

The estimated fair value of all of the Company's long-term debt is $600 million (1999 - $687 million), which is calculated as the present value of the future cash flow at market interest rates.

13. PRIOR PERIOD ADJUSTMENTS

The Company has adjusted the liability for accrued vacation pay for salaried employees which results in a prior period adjustment to retained earnings as at December 31, 1998 of $3.5 million and has set up an accrued benefit asset relating to a defined benefit pension plan which results in an adjustment to retained earnings as at January 1, 2000 of $951,000.

The presentation of the 1999 consolidated financial statements has been restated to conform with that of the current year.

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The presentation of the 1999 consolidated financial statements has been restated to conform with that of the current year.

Consolidated Five-Year Review

	Fiscal Year				
	2000	1999 (Restated)	1998	1997	1996
Income Statement Items (in thousands)					
Revenues	$ 495,721	$ 478,053	$ 417,567	$ 427,118	$ 418,669
Expenses	451,451	411,167	357,872	349,539	348,565
Operating income	44,270	66,886	59,695	77,579	70,104
Finance costs and income taxes	37,991	32,362	35,562	37,381	33,807
Income before special charges	6,279	34,524	24,133	40,198	36,297
Special charges	13,000	616,583	-	-	-
Net income (loss)	$ (6,721)	$ (582,059)	$ 24,133	$ 40,198	$ 36,297
Rate of Return (income before special charges)					
On shareholder's equity	1.2%	4.2%	2.2%	3.5%	3.2%
Other Financial Highlights					
Capital additions, net (in millions)	$ 14	$ 156	$ 105	$ 126	$ 133
Total assets (in millions)	$ 1,372	$ 1,387	$ 1,944	$ 1,771	$ 1,647
Operating ratio	91.1%	86.0%	85.7%	81.8%	83.3%
Debt : equity	52:48	53:47	35:65	28:72	25:75
Employees	1,999	2,088	2,249	2,361	2,340
Traffic and Operating Statistics					
BC Rail Business Unit					
Revenue ton-miles (millions)	5,058	5,106	4,947	5,200	5,070
Gross ton-miles (millions)	8,914	9,090	8,986	9,375	9,049
Net : gross ton-miles	36:64	36:64	36:64	36:64	36:64
Revenue tons (thousands)	15,273	16,177	16,230	17,933	16,893
Carloadings	184,125	193,627	193,882	212,189	202,816
Revenue tons per carload	83	84	84	85	83
Revenue ton miles per BC Rail employee (thousands)	2,882	2,685	2,446	2,498	2,058
Number of locomotives at year end	129	127	122	123	124
Number of freight cars at year end	9,563	9,538	9,846	9,701	9,646
BCR Marine Business Unit					
Vancouver Wharves Limited Partnership					
Tonnage shipped (thousands)	4,292	3,463	3,772	5,200	5,774
Tons handled per employee	20,321	15,552	17,097	20,001	22,330
Canadian Stevedoring Limited (Note 1)					
Tonnage handled (thousands)	10,041	8,816	1,525	-	-
Tons handled per employee	15,763	14,645	2,495	-	-
BCR Properties Business Unit					
Leased square feet (thousands)	309	1,663	1,340	832	469
Revenue per employee (thousands)	$ 1,192	$ 1,489	$ 1,346	$ 1,088	$ 1,193

Note 1: Canadian Stevedoring Company was purchased October 31, 1998.

Consolidated Five-Year Review

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Note 1: Canadian Stevedoring Company was purchased October 31, 1998.

Statement of Corporate Governance

Sound corporate governance principles are essential to the success of every commercial enterprise. The BCR Group of Companies is committed to the principles of sound corporate governance to foster the continued success of the BCR Group.

A Code of Conduct for all BCR Group employees, officers, agents and directors was introduced in 1995 and remains in effect today. The Code emphasizes the importance of honesty, fair dealing, faithful performance of contract and integrity. In 1999, the Board of Directors adopted Standards of Ethical Conduct for Directors and Officers. The Standards recognize the additional responsibilities and duties that directors and officers have to the BCR Group of Companies. The implementation of the Standards of Ethical Conduct includes the appointment by the Board of Directors of an ethics advisor to provide advice to directors and officers on the application and interpretation of the standards.

The BCR Group of Companies will continue to review its governance practices to ensure that they are consistent with the Code and contribute to the sound direction and management of BCR Group business.

The Board of Directors carries out its duties with a primary objective of enhancing shareholder value. The Board has the authority and duty to supervise management of the Company's business affairs. Management reviews and revises the objectives for the Company with the Board, which considers and approves them and monitors progress towards their achievement.
The business plan and forecast are reviewed and approved by the Board prior to the commencement of each fiscal year. The approval of the business plan and budget establishes the authority of senior management to take the actions indicated in the business plan and their responsibility for implementation. Other material matters not reflected in the budget, including raising capital, acquisitions and divestitures, require approval of the Board. Reports are distributed to the Board, and, at quarterly directors meetings, management reviews with the Board the progress of the business units in meeting the business plan and budgets.

The Board regards the selection and compensation of senior management as an important element of meeting the Company's objectives. It has delegated this function to a three-member Human Resources and Compensation Committee, consisting of three non-executive members. The committee, with the assistance of independent consultants, considers compensation for senior management which is designed to reward effort, reflect the Company's performance in relationship to current objectives and be consistent with market rates of compensation.

The Board recognizes the importance of maintaining effective internal, financial and other controls, sound management information systems and timely, consistent financial reporting.
The Board has delegated the oversight of management's performance of these functions to a three-member Audit Committee, all independent and unrelated and who are selected for their ability and experience with these functions.
The committee meets at least three times annually with the Company's auditors to review annual planning for the audit of the Company's accounts, to monitor the progress of the audit and to review the auditor's report and recommendations. The committee has direct access to the Company's internal audit staff.
The committee also approves all other financial information prepared by management for public release.

Management has primary responsibility for establishing objectives for the Company. The objectives are designed to exploit opportunities available to the Company and to diminish the risks to which its business is subject so as to enhance returns to shareholder. Management regularly reviews the objectives to ensure that they are in keeping with the state of the Company's development and the markets in which the Company operates.
In pursuit of these objectives, management prepares an annual business plan and a five-year strategic plan including financial forecasts and annual operating and capital budgets.

2000 Board Of Directors & Officers (as at December 31st)

British Columbia Railway Company

BOARD OF DIRECTORS

John T. Goldsmith, Chair [2] [5]
P. Jerry Asp [3] [4]
Hugh A. Gordon [1] [5]
A. Jean Leahy [3] [5]
Paul J. McElligott
M. Anne Pool [1] [2] [3]
William A. Smith [2] [4]
Anne M. Stewart
(appointed March 28, 2000)
Diane L. Wood [1]

OFFICERS

Paul J. McElligott
Group President and Chief Executive Officer
Carol A. Lee
Corporate Secretary
Eric A. Lush
Group Vice-President, Human Resources and Strategic Development
Douglas A. Wilkes
Group Vice-President Finance and Chief Financial Officer

BC Rail Ltd. and BC Rail Partnership

BOARD OF DIRECTORS

John T. Goldsmith, Chair
P. Jerry Asp
Hugh A. Gordon
A. Jean Leahy
M. Anne Pool
William A. Smith
Anne M. Stewart
(appointed March 16, 2000)
Diane L. Wood

OFFICERS

Paul J. McElligott
President and Chief Executive Officer
Carol A. Lee
Corporate Secretary
Eric A. Lush
Vice-President, Human Resources and Strategic Development
Dale R. MacLean
Vice-President, Marketing and Sales
Mark M. Mudie
Vice-President, Operations and Maintenance
Douglas A. Wilkes
Vice-President Finance and Chief Financial Officer

BCR Properties Ltd.

BOARD OF DIRECTORS

John T. Goldsmith, Chair
P. Jerry Asp
Walter R. Badun
Jim C. Cox [4]
Brian T. Josling
William A. Smith
Anne M. Stewart

OFFICERS

Paul J. McElligott
Chief Executive Officer
Jim C. Cox
President and Chief Operating Officer
Carol A. Lee
Corporate Secretary
Eric A. Lush
Vice-President, Human Resources and Strategic Development
Douglas A. Wilkes
Vice-President Finance and Chief Financial Officer

BCR Marine Ltd. and Vancouver Wharves Limited Partnership

BOARD OF DIRECTORS

John T. Goldsmith, Chair
Walter R. Badun
(appointed December 12, 2000)
Brian T. Josling
(appointed December 12, 2000)
W. Gordon Lancaster
A. Jean Leahy
M. Anne Pool
William J. Weymark
Diane L. Wood

OFFICERS

Paul J. McElligott
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William J. Weymark
President and Chief Operating Officer
David K. Arnott
Vice-President, Marketing and Business Development
Carol A. Lee
Corporate Secretary
Michael G. Templeton
Vice-President Finance and Corporate Development
Douglas A. Wilkes
Chief Financial Officer

Canadian Stevedoring Company Limited

BOARD OF DIRECTORS

John T. Goldsmith, Chair
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Brian T. Josling
(appointed December 12, 2000)
W. Gordon Lancaster
(appointed December 12, 2000)
A. Jean Leahy
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President and Chief Operating Officer
Carol A. Lee
Corporate Secretary
Alex A. Smith
Vice-President, Operations
Michael G. Templeton
Vice-President Finance and Corporate Development
Douglas A. Wilkes
Chief Financial Officer

Casco Terminals Limited

BOARD OF DIRECTORS

John T. Goldsmith, Chair
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A. Jean Leahy
M. Anne Pool
William J. Weymark
Diane L. Wood

OFFICERS

Paul J. McElligott
Chief Executive Officer
William J. Weymark
President and Chief Operating Officer
Dennis S. Jorgenson
Vice-President, Operations
Carol A. Lee
Corporate Secretary
Eric A. Lush
Vice-President, Human Resources and Strategic Development
Michael G. Templeton
Vice-President Finance and Corporate Development
Douglas A. Wilkes
Chief Financial Officer

BCR Ventures Inc.

BOARD OF DIRECTORS

John T. Goldsmith, Chair
P. Jerry Asp
A. Jean Leahy
Douglas A. Wilkes
(appointed December 11, 2000)

OFFICERS

Paul J. McElligott
Chief Executive Officer
Carol A. Lee
Corporate Secretary
Douglas A. Wilkes
Chief Financial Officer

(1) Member of Audit & Finance Committee
(2) Member of Human Resources Committee
(3) Member of Environment & Safety Committee
(4) Member of Aboriginal Relations Committee
(5) Member of Strategic Planning Committee
(6) Member of Corporate Governance & Nomination Committee